SUPPLEMENTAL PAYMENTS

FISCAL YEAR 2002-2003

CALCULATION

AND

FUNDING INFORMATION

LPRD-104 Revised 09-02

California State Teachers' Retirement System
Supplemental Payments

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Purchasing Power

Inflation can significantly deteriorate a person's ability to maintain a consistent standard of living after retirement. Inflation is generally measured by changes in the average prices of selected goods and services. As inflation rises, the value of money decreases because it purchases fewer goods and services. A decline in the purchasing power of money is another way to define inflation.

The higher the rate of inflation, the greater the drop in the purchasing power of money. For example, if wages remain the same but prices double, the current purchasing power of wages is only 50 percent of the purchasing power of those same wages prior to the price increases. In this situation, wages must double to maintain the same purchasing power.

The California State Teachers' Retirement System (CalSTRS) measures the purchasing power level of allowances by the change in the All Urban California Consumer Price Index (CCPI) published by the Department of Industrial Relations, Bureau of Labor Statistics. The cumulative change in the CCPI from each year in which benefits have become effective since 1955 is displayed in Attachment A.

2 Percent Simple Benefit Adjustment (Education Code Sections 22140, 22141 and 24402)

The CalSTRS Defined Benefit Program provides an automatic 2 percent simple benefit adjustment to allowances payable to all benefit recipients to provide some protection against the effects of inflation. This annual "benefit improvement factor" is applied September 1 of each year following the first anniversary of the effective date of the benefit.

There are two other sources of funds that provide additional purchasing power protection for CalSTRS benefit recipients through "supplemental payments". These are School Lands Revenue and the Supplemental Benefit Maintenance Account (SBMA). Supplemental payments are made quarterly from these funds on October 1st, January 1st, April 1st and July 1st. It is important to remember that these payments are not guaranteed and will continue only as long as funds are available.

School Lands Revenue (Education Code Sections 24412 and 24413)

Since 1983, it had been the intent of the Legislature and the Teachers' Retirement Board to maintain the level of purchasing power of CalSTRS allowances to a minimum of 75 percent of the purchasing power of the initial allowance. To fulfill this intention, revenue generated from the use of State School Lands (land granted to California by the federal government to support schools) and Lieu Lands (properties purchased with the proceeds from the sale of school lands) during the prior year is transferred to CalSTRS each year for the purpose of providing annual supplemental payments in quarterly installments. In 1997, legislation was enacted to provide 75 percent purchasing power from the SBMA, also. Chapter 840, Statutes of 2001 provides for up to 80 percent purchasing power.

This revenue is distributed on a pro-rata basis to all benefit recipients whose initial allowances have fallen below the 80 percent purchasing power level. Because the revenue from School Lands does not generate enough income to bring the purchasing power of all CalSTRS allowances to at least 80 percent, the available revenue is distributed on a proportional basis to all eligible benefit recipients. The amount of the School Lands payment for each benefit recipient depends on the: (1) amount of money available from School Lands that year; (2) number of benefit recipients whose allowance purchasing power is below 80 percent; and (3) increase in the CCPI.

For example, if School Lands revenue is only sufficient to provide 5 percent of the amount needed to bring all allowances up to a minimum of 80 percent of the purchasing power of the initial allowance, each eligible benefit recipient will receive from School Lands revenue 5 percent of the amount needed to restore their purchasing power to 80 percent.

In 2002-2003, School Lands revenue is providing only 1.2 percent of the amount needed to restore the purchasing power of allowances payable to all benefit recipients to a minimum of 80 percent. Therefore, each eligible benefit recipient receives a supplemental payment paid from School Lands revenue equal to 1.2 percent of the amount necessary to raise the purchasing power of the allowance to 80 percent.

Since School Lands revenue for 2002-2003 is not sufficient to raise the purchasing power of each CalSTRS allowance to a minimum of 80 percent of the purchasing power of the initial allowance, the SBMA is used to make up the difference.

Supplemental Benefit Maintenance Account

An amount equal to 2.5 percent of the prior calendar year covered CalSTRS' member payroll is transferred each year from the State of California General Fund to the Supplemental Benefit Maintenance Account (SBMA) in the Teachers' Retirement Fund. The SBMA provides annual supplemental payments in quarterly installments to all benefit recipients whose purchasing power has fallen below 80 percent of the purchasing power of the initial allowance, as long as funds are available.

Both the School Lands revenue and SBMA provide authority to make supplemental payments sufficient to bring purchasing power up to 80 percent of the purchasing power of the original allowance, and, the funding from the General Fund equal to 2.5 percent of payroll is guaranteed. The 80 percent level of supplemental payments, however, is not vested. This means that if the combined funding from both sources is not sufficient to bring purchasing power up to the 80 percent level, supplemental payments may have to be paid at a lower level. However, based upon our assumptions the funding for an 80 percent supplemental payment is sufficient for well in excess of 30 years.

The amount of the supplemental payment from SBMA for each benefit recipient depends on: 1) the extent to which the benefit recipient's allowance has fallen below 80 percent of the purchasing power of the initial allowance; and (2) the amount of the supplemental payment provided from School Lands Revenue.

Estimation of Supplemental Payments

A benefit recipient can estimate his or her supplemental payments. It is first necessary to calculate the purchasing power of the current CalSTRS allowance. This may be accomplished by using the following information:

Initial Allowance (identified by "Initial Date/Allow" on the Direct Deposit Advice/Check stub just below the Social Security Number)

Benefit Effective Date (identified by "Initial Date/Allow" on the Direct Deposit Advice/Check stub just below the Social Security Number)

Current Allowance (the sum of your Normal Allow and COLA on the Direct Deposit Advice/Check stub); **and**

Change in the California Consumer Price Index (CCPI) is determined by dividing the CCPI for June of 2002 by the CCPI for June of the calendar year of retirement. Attachment A provides the result (Purchasing Power Factor) of this division for each calendar year of retirement.

Purchasing Power Percentage of the Current Allowance

The example will use the following data to calculate the current purchasing power percentage:

Initial Allowance:	$1,000
Benefit Effective Date:	July 1, 1975
Current Allowance:	$1,540
Purchasing Power Factor:	3.575

In this example, the benefit effective year is 1975, and the corresponding Purchasing Power Factor is 3.575. (Change in CCPI is determined by dividing the CCPI for June of 2002 by the CCPI for June of the calendar year of retirement, in this example, 1975.)

The purchasing power of the current allowance is determined as follows:

A. Obtain the Purchasing Power Factor for the benefit effective year: 3.575

B. Multiply the initial allowance by the Purchasing Power Factor to obtain the **Fully Adjusted Allowance**. This is what the current allowance amount would be if it had been adjusted to keep pace with inflation since the Benefit Effective Date.

$1,000 x 3.575 = $3,575.00

C. Divide the Current Allowance by the Fully Adjusted Allowance to calculate the **Current Purchasing Power Percentage**.

$1,540.00 / $3,575.00 = 43.08%

Note: If the Current Purchasing Power Allowance percentage is greater than 80 percent, no supplemental payments will be paid.

Total Quarterly Supplemental Payment

The total supplemental payment is determined as follows:

A. Multiply the fully Adjusted Allowance by .80 to determine the 80 percent **Purchasing Power Amount.**

$3,575.00 x .80 = $2,860.00

B. Subtract the Current Allowance from the 80 percent Purchasing Power Amount to determine the **Supplemental Payment Monthly Amount,** the monthly payment amount that would be needed to restore the purchasing power allowance to the 80 percent level.

$2,860.00 - $1,540.00 = $1,320.00

C. Multiply **Supplemental Payment Monthly Amount** by three (3) months to determine the **Total Quarterly Supplemental Payment.**

$1,320.00 x 3 = $3,960.00

Important Information about your Supplemental Payment for 2002-2003

As you will notice from the **Factors for Calculating 2002-2003 Purchasing Power** (Attachment A) the All Urban California Consumer Price Index on June 2002 was 185.9. This was only a slight increase from the 2001 index of 183.2. CalSTRS provides an annual 2 percent simple benefit improvement factor. This means for many members, the 2 percent simple benefit improvement increase effective October 1, 2002 will bring the purchasing power of the allowance up to or in excess of the 80 percent level. In some cases, members who received a Supplemental Payment in 2001 will not be eligible for one in 2002, or the Supplemental Payment that is received in 2002 may be slightly less than the one that was received in 2001. This is because inflation was lower than the COLA between June 2001 and June 2002 which made the purchasing power of the allowance a little bit greater in 2002 than it was in 2001.

It is important to realize that this document is only provided as a means for you to **estimate** your Supplemental Payment. Because the calculation in this document has been simplified to utilize the fields as they are displayed on the Direct Deposit Advice/Check stub, in most instances the estimate you derive from this document will be less than the actual Supplemental Payment you will receive.

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Factors for Calculating 2002-2003 Purchasing Power
All Urban CA Consumer Price Index
Attachment A

Year	June CCPI	Purchasing Power Factor
1955	25.7	7.233
1956	26.2	7.095
1957	27.1	6.860
1958	28.1	6.616
1959	28.5	6.523
1960	29.1	6.388
1961	29.5	6.302
1962	30.0	6.197
1963	30.2	6.156
1964	30.8	6.036
1965	31.6	5.883
1966	32.1	5.791
1967	32.9	5.650
1968	34.3	5.420
1969	36.0	5.164
1970	37.9	4.905
1971	39.4	4.718
1972	40.5	4.590
1973	42.7	4.354
1974	47.1	3.947
1975	52.0	3.575
1976	55.2	3.368
1977	59.5	3.124
1978	64.6	2.878
1979	71.0	2.618
1980	83.3	2.232
1981	90.1	2.063
1982	98.5	1.887
1983	99.1	1.876
1984	103.6	1.794
1985	108.4	1.715
1986	112.2	1.657
1987	116.3	1.598
1988	121.7	1.528
1989	128.2	1.450
1990	134.3	1.384
1991	140.1	1.327
1992	145.2	1.280

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Year	June CCPI	Purchasing Power Factor	
1993	148.9	1.248	
1994	150.7	1.234	
1995	154.2	1.206	
1996	156.6	1.187	
1997	160.0	1.162	The Purchasing Power Factor
1998	163.6	1.136	is obtained by dividing the CCPI
1999	167.8	1.108	for June of 2002 by the CCPI for
2000	174.0	1.068	June of the calendar year of
2001	183.2	1.015	retirement
2002	185.9	1.000	

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Estimation Worksheet - Quarterly Payments

■ Current Allowance Purchasing Power Percentage

1.	______________ Initial Allowance Monthly Amount	x	_____________________ Purchasing Power Factor for the Benefit Effective Year	=	Fully Adjusted Allowance (a)
2.	_______________ Current Allowance Monthly Amount	/	___________________ Fully Adjusted Allowance (a)	=	Current Purchasing Power Percentage (Must be less than 80% to proceed)

■ Total Supplemental Payment

1.	____________ Fully Adjusted Allowance (a)	x	.80 Purchasing Power Percentage	=	_________________ Total Purchasing Power Amount
2.	_________________ Total Purchasing Power Amount	-	______________ Currently Allowance Monthly Amount	=	Supplemental Payment Monthly Amount
3.	_________________ Supplemental Payment Monthly Amount	x	3 Number of months in a quarter of a year	=	Total Quarterly Supplemental Payment (b)